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## SPECIAL ANALYSIS

### POLAND: Balance-of-Payments Deficit

Poland's trade deficit with non-Communist countries will be considerably larger in 1980-82 than we previously forecast. We believe Warsaw has lined up sufficient financing to satisfy its needs for 1980, but raising the necessary funds for 1981 and 1982 will be difficult.

The strikes last summer, the wage settlements at the end of August, and a worse-than-expected harvest indicate that the trade deficit for 1980 will now reach some \$1.7 billion, about \$500 million above our prestrike forecast. This deficit will also be higher than we had thought because Warsaw seems committed to appeasing consumers by increasing supplies of consumer goods. Exports will suffer and imports will have to be boosted. A below-average grain harvest and a sharp decline in the potato crop will probably require substantially increased imports of grain and processed foods, notably meat. With interest payments on the debt expected to total about \$2.7 billion, the current account deficit will probably reach \$3.8 billion this year.

#### Outlook for 1981-82

The Polish economic scene is shifting so rapidly that balance-of-payments projections are hazardous. The outlook, however, is worse now than it was last summer. We expect the hard currency trade deficit will level off at about \$1.5-1.6 billion in 1981 and 1982. The current deficits, because of rising interest payments, are projected at \$4.3-4.7 billion.

The upward revision in our estimate of the trade deficits in 1981-82 reflect:

- The government's virtual abandonment of its recent austerity program and consequent redirection of resources from exports to personal consumption.

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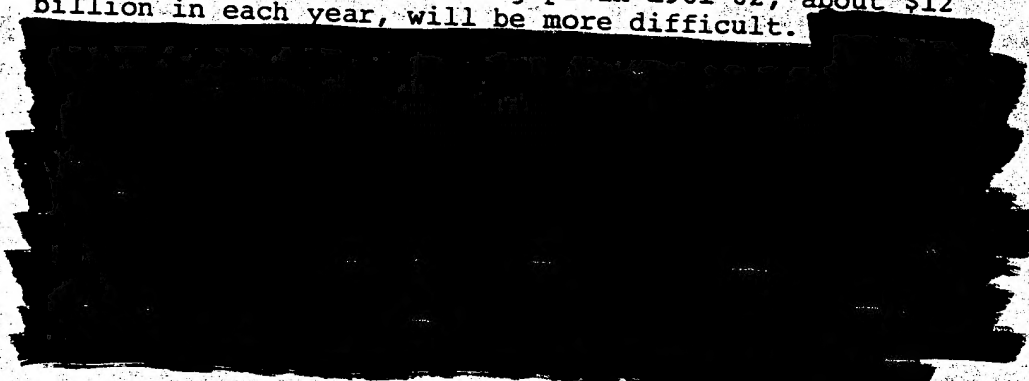
--Limits on Warsaw's ability to cut drastically imports of producers' goods without causing serious disruption to the economy.

--The impact on production of a shorter work-week and elimination of round-the-clock work in the mines that was introduced as part of the strike settlements.

#### Financing the Borrowing Requirements

Poland's borrowing requirement this year will total about \$10 billion to cover the anticipated current account deficit of \$3.8 billion, repayments of medium- and long-term debts of \$5.9 billion, and probable increases in assets--net loans and bank deposits--of \$300 million. Poland probably will be able to raise the needed funds. About \$7.3 billion in credits has already been raised or is being negotiated, and the remaining gap should be easily filled.

Covering the financial gaps in 1981-82, about \$12 billion in each year, will be more difficult.



Reluctance to lend to Poland has been intensified by the abandonment of the government's short-lived austerity program. If banks refuse to continue rolling over the Polish debt, a formal rescheduling effort will be required. At the end of 1979, about \$18 billion in medium- and long-term debt was due for repayment in 1980-82. A multilateral rescheduling, which now seems likely, will aggravate Poland's problem of finding money to finance the large current account deficits.

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Poland could continue to receive sufficient external financing only if several unlikely events occur:

- Commercial banks, rather than face the embarrassment of acknowledging bad loans and the complex procedure of arranging a multilateral rescheduling, will continue to roll over Poland's debt informally.
- The banks, under pressure from exporters in search of markets and from governments motivated by economic and political considerations, continue to extend government-backed loans to provide additional funds.
- The USSR and other Communist countries provide substantial aid.

Disintegrating Western confidence in Poland, however, makes muddling through improbable. Warsaw should be able to tap Communist governments and Western banks for one-third to one-half of the \$9 billion needed to cover the projected current account deficits in 1981-82. If this is right, direct Western government aid of as much as \$6 billion will be necessary unless Warsaw undertakes a crash program to cut imports and to divert production from the domestic economy into exports.

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